



KENTUCKY
Council
on postsecondary education

BUDGET OVERVIEW

**Council on
Postsecondary Education**

May 18, 2003

Budget Overview

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Council on Postsecondary Education

Budget Overview Outline

May 18, 2003

<i>SECTION</i>	<i>DESCRIPTION</i>
Section A	<i>Points of Consensus</i> <ul style="list-style-type: none">• Overview• Issues<ul style="list-style-type: none">○ Evaluation of possible new funding distribution methodology
Section B	Benchmark Funding Process <ul style="list-style-type: none">• Overview• Issues<ul style="list-style-type: none">○ Changes to benchmark institutions○ Mandated programs and debt service○ Comprehensive review of funding methodology
Section C	Trust Funds and Special Initiatives <ul style="list-style-type: none">• Overview• Issues<ul style="list-style-type: none">○ Review of existing trust funds○ Addition of new trust funds○ Special initiatives
Section D	Capital Budgeting <ul style="list-style-type: none">• Overview• Issues<ul style="list-style-type: none">○ Evaluation of state's responsibility○ Deferred maintenance issues○ Evaluation of research space productivity
Section E	Timeline for CPE Discussion and Action

Section A

Points of Consensus

Points of Consensus

The council's 2004-06 operating and capital recommendation will be developed under the provisions of the *Points of Consensus among University Presidents, KCTCS President, and the Council President Concerning the 2004-06 Funding Methodology*. The *Points of Consensus* are provided here for your convenience.

January 8, 2003

Points of Consensus among University Presidents, KCTCS President, and the Council President Concerning the 2004-06 Funding Methodology

I. Base Funding

Provision 1: In recognition of the Commonwealth's commitment to an excellent system of postsecondary education and postsecondary education's linkage to economic development growth, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will provide the following:

- a) An inflationary increase as provided to other agencies of state government.
- b) Maintenance and operation funds to support new educational and general buildings approved by the General Assembly.
- c) Changes in debt service requirements for institutional bond issues supported from state appropriations and to be paid by the institution.
- d) The benchmark method, comparing Kentucky institutions' General Fund appropriations to those of peers selected through the criteria for benchmark selection, is one of several acceptable approaches to establish institutional base budgets. The current method should be retained and updated to determine equity adjustments to the base General Fund appropriations to the institutions.
- e) Establish the benchmark funding objective using estimated Fall 2003 enrollment for Kentucky institutions.

Clarifying Statements

- Based on actions of the council, the Governor, and the General Assembly to reaffirm the state appropriation bases of institutions, no redistribution among institutions of existing institutional General Fund base appropriations should occur. Institutional General Fund base budgets should not be reallocated through the state budgeting process.

- General Fund appropriations to institutions should continue to be lump sum with necessary accountability requirements.
- Institutions should continue to have the delegated authority to set tuition rates.
- The annual General Fund base increase request should be, at a minimum, the percentage provided to state agencies in the Legislative Research Commission's promulgated biennial *Budget Request Manual*.
- Support for enrollment growth will be provided in two ways. Growth that has occurred by Fall 2003 will be recognized by using Fall 2003 estimated enrollment to establish the benchmark funding recommendation. Enrollment growth that may occur during the biennium will be addressed in the implementation of the Enrollment Growth and Retention Trust Fund.
- The cost differential related to new undergraduate and graduate enrollments should be addressed through the Enrollment Growth and Retention Trust Fund (Section II).
- Adjustments to institutional base budgets should include across-the-board inflationary increases for all institutions as well as adjustments resulting from the benchmark process.
- A survey will be undertaken to update General Fund debt service at the benchmark institutions. A survey will also be undertaken to update state funding of mandated public service and research programs information at the benchmark institutions. The updated General Fund debt service amounts and state funding for mandated public service and research programs will be factored out of data for both the Kentucky institutions as well as the benchmark institutions.

Provision 2. Actual tuition should not be an offset against General Fund appropriations.

Clarifying Statements

- Kentucky's funding approach needs to reflect the shared funding responsibility between the state and the student (tuition).
- The current method of deducting tuition from the calculated public funds will be retained. The current method includes standard deductions that are lower for Kentucky State University, the KCTCS, and Lexington Community College than for the other institutions.

Provision 3. The council and the institutions have identified and agreed upon mandated public service and research programs having no student enrollments or instructional function. These will be factored out of benchmark funding evaluations.

Clarifying Statements

- Institutions will provide the levels of General Fund support for the mandated public service and research programs.
- General Fund appropriations for mandated public service and research programs will be treated consistently across all Kentucky institutions and their respective benchmark institutions. General Fund appropriations for mandated public service and research programs will be factored out of data for both the Kentucky institutions as well as the benchmark institutions.

II. Trust Funds

Trust funds should be maintained. The council will recommend trust funds that meet the priorities of *The Postsecondary Education Improvement Act of 1997* and the Strategic Agenda.

Among the trust funds and related programs proposed there should be an Endowment Match Program.

The council should recommend funding for the Enrollment Growth and Retention Trust Fund. It should recognize the differentiated costs of undergraduate and graduate instruction. Funding amounts should be based on the council's recommended benchmark funding objectives and upon enrollment and retention goals negotiated with each institution. Implementation of the trust fund will be based on the actual enrollment and retention at each university.

Clarifying Statements

- The trust funds approach is important for assuring the achievement of *Strategic Agenda* goals. Distribution criteria for each trust fund, including the criteria for determining institutional allocations and matches (if any), should be clear and consistent, and should be part of the council's 2004-06 budget request.
- The Enrollment Growth and Retention Trust Fund should recognize the differentiated costs of increased undergraduate and graduate enrollments. Funding amounts for the Enrollment Growth and Retention Trust Fund should be based on each institution's benchmark funding objective per FTE.
- Matching requirements play an integral part of the Endowment Match Program by providing incentives for extramural fund-raising.
- Both state and matching funds received for the Endowment Match Program should be endowed.
- Special consideration may be given to institutions with demonstrated difficulty in meeting matching requirements, such as additional time to match their allocated state funds.

III. Special Funding

Funding of special and meritorious initiatives may be designated by the council for flow-through funding; however, guidelines will be promulgated well in advance.

Clarifying Statements

- Criteria for the council's evaluation of special initiative requests will be established early in the process.
- The Commonwealth, through its partnership agreement with the U.S. Office for Civil Rights, is committed to enhancing Kentucky State University. KSU and the council will continue to cooperate to fulfill this commitment.
- Institutions should be provided an opportunity to request increases in General Fund appropriations for mandated programs that have been factored out of the benchmark process.

IV. Capital Budget


The space planning guidelines will be further reviewed as to coding of research space, quality of space, and fitness for purpose.

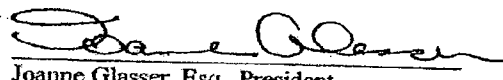
Clarifying Statements


- The council should submit a capital projects recommendation for the 2004-06 biennium to the Governor and the General Assembly based on requests submitted by institutions under guidelines developed by the council early in the budget process. The Space Planning Guidelines will be revised to address coding of research space, quality of space, and fitness for purpose.
- Capital funding guidelines will allow for requests for capital renewal of existing facilities, equipment replacement, and equipment acquisitions consistent with the goals of *The Postsecondary Education Improvement Act of 1997* and the Strategic Agenda. The council will advance requests for new facilities when necessary to accomplish a specific strategic goal or support the mission of the institution.
- The Capital Renewal and Maintenance Program will continue to be based on projects recommended by the council.
- The council should continue to recommend a sufficient agency bond pool amount and recommend that institutions have the autonomy to bond their own projects without affecting the state bonding capacity.
- The council and the institutions will work together to identify ways to maximize institutional authority to issue debt supported by agency funds.


**Points of Consensus among University Presidents, KCTCS
President, and the Council President
Concerning the 2004-06 Funding Methodology**

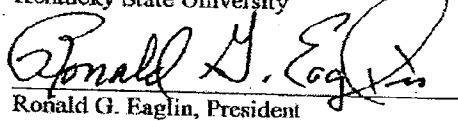
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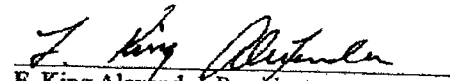

Sue Hodges Moore, Interim President
Council on Postsecondary Education

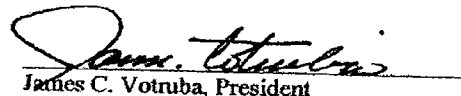

Joanne Glasser, Esq., President
Eastern Kentucky University

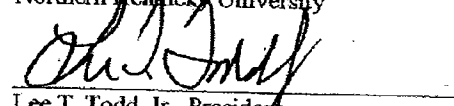

Michael B. McCall, President
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System

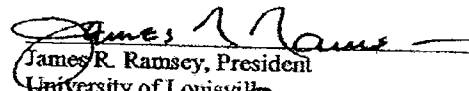

William H. Turner, Interim President
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Murray State University


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James R. Ramsey, President
University of Louisville


Gary A. Randall, President
Western Kentucky University

Funding Distribution Methodology

Background

House Bill 269, the 2002-04 budget bill, includes an increase of \$18.9 million in fiscal year 2003-04 that the legislature distributed to the institutions.

The General Assembly utilized a modified benchmark funding approach to distribute these funds based on each institution's percentage of the total calculated need for fiscal year 2003-04. The total benchmark funding model need for FY 2003-04 was determined to be \$34.8 million. Of that amount for example, ECU's calculated need of \$3.3 million of the \$34.8 million total as a percentage of the total need was 9.7 percent. Therefore, ECU received 9.7 percent of the \$18.9 million. This approach was developed in the Governor's budget office during the development of the Governor's 2002-04 budget.

The legislature used, in part, the council's benchmark model to distribute the budget reduction for FY 2002-03 of 2.6 percent of the net appropriation, or \$24,444,000. There has been concern expressed by the institutions concerning the methodology used in these two scenarios and the institutions have made the request that the council develop, as part of the *Points of Consensus*, a funding distribution methodology to address these situations.

The following is a step-by-step description of the budget reduction process, as developed by the state budget office for the legislature. The attached table shows the calculations. The references in parenthesis (e.g., Col A) indicate the lettered columns on the spreadsheet.

Step One: Net State General Fund Appropriation

Enacted 2002-03 State General Fund appropriation is used. Funding for state-supported debt service and the UofL hospital contract is deducted for a net State General Fund appropriation.

Example: KSU's 2002-03 State General Fund appropriation is \$23,162,700 (Col A). Debt service of \$2,247,600 (Col B) is deducted for a net appropriation of \$20,915,100 (Col C).

Step Two: Mandated Programs

State support for mandated programs (these are the same ones that are identified and used in the benchmark funding model) is shown. From that amount the percent of the budget reduction is cut. The total cut for the mandated programs was \$2,343,800 (Col D). The total budget reduction will be reduced by this amount in the "Step Four" calculation.

Example: KSU's agriculture cooperative extension received state funding of \$2,780,600 (Col D) in 2002-03. A 2.6 percent cut to that amount was calculated, \$72,300 (Col E).

Then, a net appropriation amount, excluding the mandated programs, is calculated.

Example: KSU's net (of debt service) appropriation is \$20,915,100 (Col C). State funding of the mandated program is deducted for a net of \$18,134,500 (Col F).

Step Three: Normalizing the Appropriations

Normalizing - This step looks at net appropriations (net of debt service, hospital contract, and mandated programs) per FTE as a percent of the benchmark funding model objective. KSU's "percent share" of the total adjusted net appropriation is 3.07 percent (Col I).

Example: KSU's 2002-03 support per FTE was \$9,646 (Col Y = $\$18,134,500/1,880$) is 118.21 percent (Col G & Z) of its benchmark objective of \$8,160 (Col X). $118.21\% \times \$18,134,500 = \$21,436,958$ (Col H). $\$21,436,958/\$698,778,582 = 3.07\%$

Step Four: Operating Budget Reductions

The budget reductions per institution are based on the total budget reduction amount (\$24,444,000) net of the budget reduction taken on the mandated programs (\$2,343,800). That is, $\$24,444,000 - \$2,343,800 = \$22,100,200$ (see total of Col J). To calculate KSU's portion of the budget reduction, \$22,100,200 was multiplied by KSU's "percent share" of 3.07 percent.

Example: $\$22,100,200 \times 3.07\% = \$678,000$ (Col J).

Step Five: Total Budget Reductions

The budget reduction on the mandated programs is added to the "percent share" reduction for the total reduction.

Example: $\$72,300$ (Col E) + $\$678,000$ (Col J) = $\$750,300$ (Col K).

Step Six: Effective Budget Reductions

The effective budget reduction for each institution was calculated based on their net appropriation (net of debt service and UofL hospital contract).

Example: $\$750,300/\$20,915,100 = 3.59\%$ (Col L)

Step Seven: Revised State General Fund Appropriation

The revised 2002-03 State General Fund appropriation is calculated by reducing the enacted appropriation by the total budget reduction.

Example: $\$23,162,700 - \$750,300 = \$22,412,400$ (Col M)

Postsecondary Education
2002-03
2.6% Spending Plan Reduction

Total Budget Reduction = C (\$940,153,100) X 2.6% = \$24,444,000

A	B	C = (A - B)	D	E = D X 2.6%	F = (C - D)	G = Z	H = (F X G)	I = (H/Total H)	J = (Total reduction - Total column E) X I	K = (E + G)	L = (K/C)	M = (A - K)
2002-03 Regular Approp. (Incl. Adj.)	(minus) Debt Service	Net Appropriations (Less DS)	(minus) Mandated Programs	2.6% Cut to Mandated Programs	Net Approp. Excluding Mandated Programs	Revised Bchmrk Percent Funded	FY 03 Adjusted Net Appropriation	Revised Share	BM distribution Excluding Mandated Programs	FY 03 Total Reduction	Effective Budget Reduction	2002-03 Appropriation
\$ 73,451,800	\$ 3,700,400	\$ 69,751,400		\$ -	\$ 69,751,400	80.85%	\$ 56,392,779	8.07%	\$ 1,783,500	\$ 1,783,500	2.56%	\$71,668,300
23,162,700	2,247,600	20,915,100	2,780,600	72,300	18,134,500	118.21%	21,436,958	3.07%	678,000	750,300	3.59%	22,412,400
42,747,400	1,543,700	41,203,700		-	41,203,700	78.09%	32,176,344	4.60%	1,017,600	1,017,600	2.47%	41,729,800
51,669,400	1,880,700	49,788,700	2,383,800	62,000	47,404,900	81.33%	38,552,335	5.52%	1,219,300	1,281,300	2.57%	50,388,100
45,989,000	5,019,600	40,969,400		-	40,969,400	56.45%	23,127,235	3.31%	731,400	731,400	1.79%	45,257,600
304,280,400	6,461,300	297,819,100	67,500,400	1,755,000	230,318,700	94.06%	216,626,802	31.00%	6,831,200	8,606,200	2.89%	295,674,200
9,150,700	988,100	8,162,600		-	8,162,600	26.81%	2,188,099	0.31%	69,200	69,200	0.85%	9,081,500
176,745,200	11,330,000	165,415,200	17,480,900	454,500	147,934,300	84.17%	124,521,540	17.82%	3,938,200	4,392,700	2.66%	172,352,500
70,427,100	3,285,900	67,131,200		-	67,131,200	65.04%	44,331,692	6.34%	1,402,100	1,402,100	2.09%	69,025,000
189,722,700	10,726,000	178,996,700		-	178,996,700	77.89%	139,424,798	19.95%	4,409,600	4,409,600	2.46%	185,313,100
Subtotal	\$ 987,346,400	\$ 940,153,100	\$ 90,145,700	\$ 2,343,800	\$ 850,007,400		\$ 698,778,582	100.00%	\$ 22,100,100	\$ 24,443,900	2.60%	\$ 962,902,500

The cut is 24,444,000

2.60%

22,100,200

X
2001-02
Benchmark
Funding
Need Per
FTE

Y

Z = (Y/X)

Net Approp. Excl.
DS/MD Programs
FY 03 GF

Percent
Funded

Percent
Funded

Notes:

1. Used estimated fall 2002 enrollment
2. Enacted Approp. less D.S., hosp. mandatory

	FTE	Per FTE	Percent Funded
EKU	7,126	\$ 5,761	80.85%
KSU	8,160	9,646	118.21%
MoSU	6,840	5,341	78.09%
MuSU	7,028	5,716	81.33%
NKU	6,793	3,835	56.45%
UK	11,179	10,514	94.06%
LCC	4,828	1,294	26.81%
UL	11,129	9,368	84.17%
WKU	6,939	4,582	66.04%
KCTCS	5,745	4,475	77.89%

Current Issues Related to Section A

1. Determinations of whether the council should develop funding methodology budget scenarios in which less than full benchmark funding is available and/or cuts in appropriations are necessary.

Section B

Benchmark Funding Process

Executive Summary

2002-04 BENCHMARK FUNDING PROCESS

Background

The first step in the 2002-04 funding process was the review of the benchmark institutions. Using 1998-99 data from the Integrated Postsecondary Education Data Systems (IPEDS), the statistical procedure FASTCLUS was applied. The FASTCLUS procedure performs a cluster analysis on the basis of distance from one or more variables (criteria) using Euclidean distances. The criteria used and the weights given to the measures in the analysis were:

Benchmark Selection Criteria

<u>Measures</u>	<u>Weights (Percent)</u>	
	<u>Doctoral</u>	<u>Comprehensive</u>
<i>Enrollment Characteristics</i>		
Total Headcount	5.26	11.11
Percent Part-Time Headcount	5.26	5.56
Entering ACT Score (50 th Percentile)	5.26	5.56
Percent Bachelor's Degrees	N/A	5.56
Percent Master's Degrees	5.26	5.56
Percent Doctoral Degrees	5.26	N/A
Subtotal	26.30	33.35
<i>Degree Program Mix (Degrees Conferred)</i>		
Percent Agriculture	5.26	5.56
Percent Business	5.26	5.56
Percent Education	5.26	5.56
Percent Engineering	5.26	5.56
Percent Biology & Physical Science	5.26	5.56
Percent Arts	5.26	5.56
Percent Liberal Arts & Humanities	5.26	5.56
Percent Health	N/A	5.56
Percent First-Professional Health	5.26	N/A
Percent First-Professional Law	5.26	N/A
Subtotal	47.34	44.48
<i>Faculty Characteristics</i>		
Percent Full-Time Faculty	5.26	5.56
<i>Public Service</i>		
Public Service as a Percentage of E&G Exp.	5.26	5.56
<i>Student/Faculty Ratio</i>		
	5.26	5.56
<i>Research Emphasis</i>		
Research Expenditures	10.53	5.56
GRAND TOTAL ALL MEASURES	100.00	100.00

The FASTCLUS statistical procedure creates a list of similar institutions from which each of the Kentucky institution's benchmarks were selected. For the 2002-04 funding process, Kentucky institutions were allowed to replace up to five of the benchmark institutions. The Kentucky Community and Technical College System, the University of Kentucky, and the University of Louisville did not change any of their existing benchmark institutions.

The review and selection of the benchmark institutions involved the presidents and their representatives, the Governor's Office for Policy and Management, the Legislative Research Commission, and the council staff. The institutional representatives and the council staff negotiated a set of benchmark institutions.

Data Analysis

Data calculations and collections were completed as follows:

- Public funds - Defined as state General Fund appropriations and tuition and fees revenue as reported to the Integrated Postsecondary Education Data System (IPEDS) - for each set of benchmark institutions.
- A survey of the benchmark institutions was conducted by MGT of America to obtain information on state funds for debt service and mandated public service and research programs having no student enrollment or instructional function. These funds were deducted from the state support amounts at the benchmark and Kentucky institutions.
- Using fiscal year 1998-99 state funding and enrollment data reported to IPEDS, public funds (net of state funds for mandated programs) per full-time equivalent (FTE) was calculated for each Kentucky institution and its respective benchmark institutions.
- A measure of central tendency, which for this calculation was the average of the 50th, 55th, and 60th percentiles, was calculated.
- This funding level was then increased by an inflation factor (the consumer price index (CPI) was used for this calculation) to determine a fiscal year 2002 funding level.
- Tuition and fees revenue, using the lesser of budgeted fiscal year 2001-02 or a standard percentage, was then deducted to obtain a net General Fund appropriation objective.
- This objective was compared to the funding level at the Kentucky institution and a funding need was calculated.

To better explain this process, the following steps are presented to describe the benchmark funding method. For this purpose the following are the 2002-04 calculations for Eastern Kentucky University.

Step 1: FY 2002 Funding Objective - Average of 50th, 55th, and 60th Percentile

FY 1999 Public Funds Per FTE (net of state funds for debt service and mandated public service and research programs) - Average of 50 th , 55 th , and 60 th Percentile	\$10,050
FY 2000 Public Funds Per FTE - FY 1999 inflated by CPI - 2.7 percent	\$10,321
FY 2001 Public Funds Per FTE - FY 2000 inflated by CPI - 3.4 percent	\$10,672
FY 2002 Public Funds Per FTE - FY 2001 inflated by CPI - 3.2 percent	\$11,014
<i>FY 2002 Estimated Benchmark Objective</i>	<i>\$11,014</i>

Step 2: Tuition Deduction - Net General Fund Appropriation Per FTE

Fiscal Year 2002 Estimated Benchmark Funding Objective	\$11,014
Less: Tuition and Fees (Budgeted FY 2001-02 - 35.3 percent)	(\$3,888)
<i>FY 2002 Net General Fund Appropriation Per FTE</i>	<i>\$7,126</i>

Step 3: FY 2002 State General Fund Appropriation

FY 2002 Direct State General Fund Appropriation	\$72,435,200
Plus:	
Enrollment Growth and Retention Funds	365,300
Action Agenda Funds	2,433,000
Faculty Development Funds	90,600
Less:	
Public Service	-
Research	-
Debt Service	\$4,325,200
<i>FY 2002 Total State General Fund Appropriation</i>	<i>\$70,998,900</i>

Step 4: Estimated State General Fund Appropriation Per FTE

FY 2002 Total State General Fund Appropriation	\$70,998,900
Divided by Estimated Fall 2000 FTE Enrollment	11,840
<i>FY 2002 Estimated State General Fund Appropriation Per FTE</i>	<i>\$5,997</i>

Step 5: FY 2002 Difference in Per FTE Funding

FY 2002 Net General Fund Appropriation Per FTE Objective (Step 2)	\$7,126
Less: FY 2002 Estimated State General Fund Appropriation Per FTE (Step 4)	\$5,997
<i>FY 2002 Difference in Per FTE Funding</i>	<i>\$1,129</i>

Step 6: Funding Need

Estimated Fall 2000 FTE Enrollment	11,840
Multiplied by Funding Difference (Step 5)	\$1,129*
<i>Funding Need</i>	<i>\$13,372,008</i>

Step 7: 2002-04 Benchmark Funding Objective

Funding Need	\$13,372,008
Divided by Length of Time to Achieve Funding Need	4 Years
<i>Estimated Annual Cost</i>	<i>\$3,343,002</i>

Step 8: Minimum Percent Increase

Minimum Percent Increase	2.0%
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First Year of the Biennium (FY 2003) Calculation:

FY 2002 State General Fund Appropriation	\$70,998,900
Multiplied by the Minimum Percent Increase	2.0%

<i>First Year (FY 2003) Base Increase</i>	<i>\$1,420,000</i>
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Second year of the Biennium (FY 2004) Calculation:

FY 2002 State General Fund Appropriation	\$70,998,900
Plus First Year Base Increase	\$1,420,000
FY 2003 Base	\$72,418,900

<i>Second Year (FY 2003) Base Increase</i>	<i>\$1,448,400</i>
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In determining each institution's funding recommendation, the greater of the benchmark funding objective (Step 7) or the minimum percent increase over the base (Step 8) was to be used. For ECU, the benchmark funding objective was greater and therefore used for the funding recommendation (Step 9).

Step 9: Benchmark Funding Increase

<i>First Year (FY 2003) Increase</i>	<i>\$3,343,000</i>
<i>Second Year (FY 2004) Increase</i>	<i>\$3,343,000</i>

* Funding difference rounded to nearest whole dollar for this presentation. Actual calculation that resulted in the \$13,372,008 funding need was a formula.

Changes to Benchmark Institutions

In April 2003, President Layzell met with the presidents and discussed the benchmark funding process. At that time it was agreed that a limited review of the benchmark institutions would be undertaken. At this time seven universities have indicated they would like to review their benchmark institutions prior to calculating the funding model. Only UK, LOC, and NKU have opted not to review their benchmark institutions at this time.

Process and Timeline for Benchmark Refinement
(adopted by CBOs during meeting on 4.28.03)

Date	Participants	Activity
April 28, 2003	CBO meeting	Initial discussion on process and timetable.
May 6	CBO/CPE	Institutions will request initial review of benchmark institutions.
May 6 – 16	Institutions requesting review and CPE	<ol style="list-style-type: none"> 1. Detailed analysis of benchmarks for each institution requesting change. 2. CPE will consult and work with each institution to determine appropriate refinements. 3. Refinements will be data driven. 4. Generally, allowance for replacing up to 5 benchmarks if supported by data (possibly more if data supports). 5. Consultations by phone, email and personal institutional visits.
May 14	CBO/CPE	<ol style="list-style-type: none"> 1. CPE will report to CBOs by email status of proposed changes (and rationale). 2. CBOs will review changes for all institutions requesting review.
May 16	CBO	<ol style="list-style-type: none"> 1. Comments on proposed changes due to CPE by email, phone or personal visit. 2. Final opportunity for institution, who has not already done so, to request a review of benchmarks.
May 16-27	Institutions requesting review and CPE	<ol style="list-style-type: none"> 1. Begin review of new requests for refinement of benchmarks. 2. Ongoing refinement for initial review institutions based on comments from CBOs and ongoing analysis.
May 27	CBO/CPE	<ol style="list-style-type: none"> 1. CPE will report to CBOs by email status of all proposed changes (and rationale) updated to include all institutions requesting review. 2. CBOs will review changes for all institutions.
May 29	CBO meeting	<ol style="list-style-type: none"> 1. Discussion of all benchmark refinements and rationale. 2. Finalize draft proposal for presentation to presidents.
June 2	Presidents meeting	<ol style="list-style-type: none"> 1. Presentation of draft proposal for changes to presidents. 2. Discussion on changes and recommendations.
June 3-9	Presidents/CBO/CPE	<ol style="list-style-type: none"> 1. Adjustments to proposal based on discussion and recommendations from presidents. 2. Finalize benchmark refinements.

Status of Benchmark Review:

- All institutions requested review of benchmarks on May 6th except for UK, LCC, and NKU.
- Individual benchmark discussions were scheduled as follows:
 - Morehead State University May 8th
 - University of Louisville May 14th
 - Kentucky State University May 15th
 - Murray State University May 20th
 - Eastern Kentucky University May 20th
 - Western Kentucky University May 20th
 - KCTCS May 21st
- During the benchmark discussions, institutional staff members were invited to present evidence and rationale for changing up to five of their benchmark institutions based on the current benchmark model.
- A comprehensive review is planned to begin after the 2004 legislative session to examine all aspects of the current funding model. The Chief Budget Officers will work with council staff to review the funding methodology and will recommend appropriate changes. This review will be completed and the resulting recommendation will be presented to the council prior to the budget development for 2006-08.

Mandated Programs and Debt Service

Background

The goal of the benchmark funding process is to provide a per student level of state support at each Kentucky institution that is comparable to that received by a set of out-of-state peer or "benchmark" institutions.

The initial implementation of the benchmark funding model revealed the need for some refinements. In 2001, the council and the presidents of the universities and community and technical college system agreed that state funded mandated research and public service programs as well as state funded debt service should be excluded from the benchmark funding process.

It was determined that a survey of both Kentucky institutions and their benchmark institutions needed to be conducted. The council contracted with MGT of America, Inc., to conduct the survey and to develop recommendations.

To reach the study objectives, the methodology for the project included four major activities:

- Design of a survey of mandated programs and General Fund debt service.
- Conduct the survey.
- Analysis of the survey results.
- Development of recommendations.

A survey of both Kentucky institutions and their benchmark institutions was conducted to identify specifically the state General Fund amounts for mandated research and public service activities and debt service. For the purposes of the survey, definitions of mandated research and public service activities and debt service were developed.

- Mandated research and public service activities are defined as those that must have an external legal mandate, either through statute, resolution, or executive order and receive appropriations greater than \$25 per full-time equivalent (FTE) student.
- Research includes funds to be expended for activities specifically organized to produce non-instructional research outcomes, including Agricultural and Engineering Experiment Stations.
- Public service includes funds to be expended to provide non-instructional services beneficial to groups external to the institution.
- Debt service is defined as state General Funds appropriated directly to the institution for servicing principal and interest on debt issued for land, equipment, or buildings.

The survey was conducted and data analyzed by MGT of America, Inc. The results along with recommendations for use of the data were presented to the council. The recommendations were implemented by the council staff in the development of the 2002-04 operating budget recommendation. State General Fund appropriations for mandated programs and debt service were deducted from the total General Fund appropriations to the Kentucky institutions and their benchmarks prior to calculating a benchmark funding objective.

The *Points of Consensus* to be used in developing the 2004-06 operating and capital recommendations includes the following provision:

- General Fund appropriations for mandated public service and research programs and debt service will be treated consistently across all Kentucky institutions and their respective benchmark institutions. General Fund appropriations for mandated public service and research programs and debt service will be factored out of data for both Kentucky institutions as well as the benchmark institutions.

As soon as a benchmark review process is complete, information will be updated pertaining to mandated programs and debt service. A comprehensive review of the benchmark funding model as well as the mandated programs issue is planned for next year.

Current Issues Related to Section B

1. Changes in benchmark institutions for current budget cycle.
2. Review of mandated programs (MGT study) related to funding model calculations.
3. Comprehensive review of benchmark funding methodology scheduled to begin in 2004.

Section C

Trust Funds and Special Initiatives

Strategic Trust Funds Overview

Trust Fund	Purpose	Program/Funding Initiative	Purpose	Funding Information	Points of Interest
Research Challenge Trust Fund	Created by HB1 to encourage research activities at UK and UofL.	<ul style="list-style-type: none"> • Endowment Match Program • Research Challenge • Enrollment Growth & Retention • Lung Cancer Research 	Encourages private investment in public university research activities through a state-matching program.	1998-00 \$100.0 mil 2000-02 \$100.0 mil 2002-04 \$9.9 mil (debt service)	Funds endowed chairs, professorships, fellowships, and mission support at the research institutions.
			Designed to help UK achieve top 20 status among research universities and UofL achieve metropolitan research university of distinction.	1998-00 \$6.0 mil *	Provides funding for prospective programs of national excellence at UK and UofL.
			Designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020.	2000-02 \$1.65 mil *	Provides funding for hiring additional faculty and enhancing student services and retention programs at the research institutions.
			Encourages research into the cure and treatment of lung and ovarian cancer.	2000-02 \$11.1 mil 2002-04 \$11.7 mil	Provides funding for competitive research grants and clinical work. Administered by an independent board of directors.
Regional University Excellence Trust Fund	Created by HB1 to support activities at comprehensive universities that achieve goals of postsecondary education reform.	<ul style="list-style-type: none"> • Endowment Match Program • Programs of Distinction • Enrollment Growth & Retention • Action Agenda 	Encourages private investment in public university research activities through a state-matching program.	1998-00 \$10.0 mil 2000-02 \$20.0 mil 2002-04 \$2.0 mil (debt service)	Funds endowed chairs, professorships, fellowships, scholarships, and mission support at the comprehensives.
			Designed to help the comprehensive universities establish programs of national prominence.	1998-00 \$6.0 mil *	Provides funding for prospective programs of national excellence at the comprehensive universities.
			Designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020.	2000-02 \$2.85 mil *	Provides funding for hiring additional faculty and enhancing student services and retention programs at the comprehensive universities.
			Helps the comprehensives achieve goals of 1999-2004 Action Agenda.	2000-02 \$10.0 mil *	Fosters distinctive universities and creative solutions to local problems.

* Recurring funding provided in each year of the biennium.

Trust Fund	Purpose	Program/Funding Initiative	Purpose	Funding Information	Points of Interest
Postsecondary Workforce Development Trust Fund	Created by HB1 to enable the KCTCS to provide specific workforce training for Kentucky businesses and industries.	<ul style="list-style-type: none"> • Workforce Development & Training • Enrollment Growth & Retention • KCTCS Admin Systems 	<p>Designed to help KCTCS improve and expand workforce skills in cooperation with business and industry.</p> <p>Designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020.</p> <p>Supports implementation of an administrative software system that serves 50 campuses statewide.</p>	<p>1998-00 \$6.0 mil *</p> <p>2000-02 \$6.0 mil *</p> <p>2000-02 \$3.5 mil *</p> <p>2000-02 \$4.0 mil</p>	<p>KCTCS developed KY WINS to provide business and industry with education, training, and support to create better jobs and a workforce to fill them. KY WINS projects resulted in the creation of 4,928 new jobs and served 12,736 Kentuckians since FY 2000.</p> <p>Provides funding for hiring additional faculty and enhancing student services and retention programs at KCTCS institutions.</p>
Technology Initiative Trust Fund	Created by HB1 to fund projects that advance the strategic agenda. It was used in 1998-00 to improve statewide and campus technology infrastructures, and to establish KYVU and KYVL. In 2000-02 it provided funding for equipment replacement, network infrastructure, and faculty development programs.	<ul style="list-style-type: none"> • KYVU/VL Technology Pool • KYVU/VL Support • Equipment Replacement • Network Infrastructure • Public Communications Campaign • Faculty Development 	<p>Provides funding for hardware and software infrastructure necessary to conduct VU/VL operations.</p> <p>Supports implementation and maintenance of hardware and software.</p> <p>Provides funds to upgrade and replace research and instructional equipment.</p> <p>Supports network infrastructure to expand the Kentucky Information Highway.</p> <p>Designed to increase enrollment in adult and postsecondary education programs.</p> <p>Supports faculty development programs (campus teaching resource centers, technology training, etc.).</p>	<p>1998-00 \$5.6 mil</p> <p>1998-00 \$4.1 mil</p> <p>2000-02 \$3.8 mil (debt service)</p> <p>2000-02 \$1.2 mil</p> <p>2002-04 \$1.7 mil</p> <p>2000-02 \$1.5 mil</p> <p>2000-02 \$1.0 mil</p> <p>2002-04 \$150 K</p>	<p>Enables students across the state to access postsecondary education anytime, anywhere via the web. (same as above)</p> <p>Requested \$20 million for equipment replacement in 2002-04 budget.</p> <p>Encourages institutions to work collaboratively.</p> <p>Targets adults who need more education and at risk adolescents.</p>

* Recurring funding provided in each year of the biennium.

Trust Fund	Purpose	Program/Funding Initiative	Purpose	Funding Information	Points of Interest
Physical Facilities Trust Fund	Created by HB 1 to provide funding for capital projects. Typically, bonds are issued to fund approved projects and the trust fund receives money for debt service.	<ul style="list-style-type: none"> Deferred Maint. & Government Mandates Capital Renewal & Maintenance Renovation, Replacement, & Infrastructure New Construction 	<p>Matching funds to address deferred maintenance, life safety, and federal mandates for safe buildings.</p> <p>Matching funds to replace or upgrade building systems that have gone beyond their useful life.</p> <p>Focuses attention on the need to remodel, refurbish, and renovate existing instructional and support space.</p> <p>Addresses demonstrated need to add new space to support enrollment growth or research activities.</p>	<p>1998-00 \$31.6 mil (Debt service)</p> <p>2000-02 \$3.0 mil (Debt service)</p> <p>2000-02 \$10.4 mil (Debt service)</p> <p>2000-02 \$7.4 mil (Debt service)</p>	<p>Postsecondary education centers to support postsecondary reform. Completed \$41 million DFM projects.</p> <p>Funded capital renewal projects totaling \$60.0 million at the universities and community and technical colleges.</p> <p>Provided \$137.4 million to renovate existing E&G facilities and construct new space on the campuses.</p> <p>Provided \$106.4 million to construct research space at UK and UofL.</p>
Student Financial Aid and Advancement Trust Fund	Created by HB1 to provide funding for CAP and KTG program. KEES was later added to the trust fund by the 1998 General Assembly.	<ul style="list-style-type: none"> College Access Program (CAP) Kentucky Tuition Grant (KTG) Kentucky Excellence in Education Scholarship (KEES) 	<p>Promotes increased student retention at public and private institutions through need-based aid awards to freshmen and sophomores.</p> <p>Bolsters enrollment at private colleges and universities through need-based aid awards.</p> <p>Ensures access to public and private postsecondary education in Kentucky through merit scholarships based on high school GPA and ACT scores.</p>	<p>Funds for this program go directly to KHEAA.</p> <p>Funds for this program go directly to KHEAA.</p> <p>1998-00 \$25.0 mil * 2000-02 \$37.5 mil * 2002-04 \$63.0 mil *</p>	<p>Encourages young people to stay in school by providing financial assistance during first two years.</p> <p>Attempts to equalize public and private sector tuition rates.</p> <p>Expected to provide KEES awards to about 54,000 students in FY 2003-04.</p>
Adult Education and Literacy Funding Program	Supports statewide effort to improve and expand adult education in Kentucky as required in Senate Bill 1 and the Adult Education Act of 2000		Coordinated with state and federal funds available to Department for Adult Education and Literacy of the Workforce Development Cabinet.	<p>2000-02 \$11.7 mil * 2002-04 \$11.0 mil *</p>	Expected to enroll about 100,00 Kentuckians in adult education programs in 2003-04.

* Recurring funding provided in each year of the biennium.

Trust Fund	Purpose	Program/Funding Initiative	Purpose	Funding Information	Points of Interest
Science & Technology Funding Program		<ul style="list-style-type: none"> Kentucky Science & Technology Strategy Knowledge-Based Economy Academic Programs KY EPSCoR & KY Science & Engineering Foundation 	Supports small business R&D and commercialization of university research through voucher and seed capital initiatives.	2000-02 \$5.5 mil 2002-04 \$4.3 mil	Enables rural firms to undertake R&D in partnership with postsecondary institutions.
			Encourages a collaborative approach for educating greater numbers of engineers and information technology specialists.		Provides greater integration of engineering and information technology education into the state's New Economy initiative.
			Encourages federal investment in public university research activities through a state-matching program. Leverages state funds to increase federal and private sector funding for R&D in Kentucky.	2002-04 \$4.5 mil	Increases the flow of federal research dollars to Kentucky and builds the state's science and engineering capacity. Attracts research funding from all sources to support exploratory and applied research, emerging technology programs, human resource development, and technological innovation.

Strategic Investment and Incentive Trust Funds/Funding Programs

Background

On May 30, 1997, the Kentucky General Assembly enacted the *Postsecondary Education Improvement Act of 1997* (House Bill 1). That act created six Strategic Investment and Incentive Trust Funds for postsecondary education: (a) a Research Challenge Trust Fund; (b) a Regional University Excellence Trust Fund; (c) a Technology Initiative Trust Fund; (d) a Physical Facilities Trust Fund; (e) a Postsecondary Education Workforce Development Trust Fund; and (f) a Student Financial Aid and Advancement Trust Fund. The purpose of the trust funds is to bring about change and improvement in Kentucky's colleges and universities through a system of strategic financial assistance awards that reward the kinds of behavior that advance the state's goals for postsecondary education. The trust funds are maintained and administered by the Council on Postsecondary Education.

Original Six Trust Funds

I. Research Challenge Trust Fund

This trust fund was created by the *Postsecondary Education Improvement Act of 1997* to encourage research activities at the University of Kentucky (UK) and the University of Louisville (UofL). It includes the Endowment Match Program (the research university portion), the Research Challenge Program, the Enrollment Growth and Retention Program (the research university portion), and the Lung Cancer Research Program.

A. Endowment Match Program - This program matches state money with private gifts to grow endowments at Kentucky's public universities. Investment proceeds from the endowments are used to fund endowed chairs, professorships, fellowships, scholarships (at the comprehensive universities only), and mission support at these institutions. The research university portion of the program received General Fund appropriations of \$100.0 million in 1998-00 and \$100.0 million in 2000-02. House Bill 269 appropriated \$9,871,000 to the trust fund in 2002-04 to pay debt service on a bond issue that will provide another \$100 million to the research institutions.

B. Research Challenge Program - This program provides funding for prospective programs of national excellence at the University of Kentucky and the University of Louisville. It is designed to help UK achieve top 20 status among public research universities nationwide and to help UofL become a metropolitan research university of distinction. The program received \$6.0 million in each year of the 1998-00 biennium. HB 269 included no funding for this program in 2002-04.

C. Enrollment Growth and Retention - This program provides funding that campus officials can use to hire additional faculty or enhance student services and retention programs. It is designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020. The research university portion of this program received \$1.65 million in each year of the 2000-02 biennium. HB 269 included no funding for this program in 2002-04.

D. Lung Cancer Research Program - This program provides funding for competitive research grants and clinical work that seek cures for, or better treatments of, lung and ovarian cancer. It received \$11.1 million in 2000-02. HB 269 appropriated \$11.7 million to the program in 2002-04. The program is financed entirely with Tobacco Settlement funds.

II. Regional University Excellence Trust Fund

Created by the *Postsecondary Education Improvement Act*, the Regional University Excellence Trust Fund supports activities at the comprehensive universities that achieve the goals of postsecondary reform. It includes the Endowment Match Program (the comprehensive university portion), Programs of Distinction, the Enrollment Growth and Retention Program (for the comprehensive universities), and the Action Agenda.

A. Endowment Match Program - This program matches state money with private gifts to grow the endowments at Kentucky's public universities. Investment proceeds from the endowments are used to fund endowed chairs, professorships, fellowships, scholarships (at the comprehensive universities only), and mission support at these institutions. The comprehensive university portion of the program received General Fund appropriations of \$10.0 million in 1998-00 and \$20.0 million in 2000-02. House Bill 269 appropriated \$1,975,000 to the trust fund in 2002-04 to pay debt service on a bond issue that will provide another \$20 million to the comprehensive institutions.

B. Programs of Distinction - This program provides funding for prospective programs of national excellence at the comprehensive universities. It is designed to help the comprehensive universities establish programs of national prominence that also meet regional and state needs. The program received \$6.0 million in each year of the 1998-00 biennium. HB 269 included no funding for this program in 2002-04.

C. Enrollment Growth and Retention - This program provides funding that campus officials can use to hire additional faculty or enhance student services and retention programs. It is designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020. The comprehensive university portion of this program received \$2.85 million in each year of the 2000-02 biennium. HB 269 included no funding for this program in 2002-04.

D. Action Agenda - This program supports efforts by the comprehensive universities to achieve the objectives of the *1999-2004 Action Agenda*, such as becoming distinctive universities, developing innovative solutions to community and regional problems, providing services in the community for persons with disabilities, increasing the educational levels in Kentucky, and working with local schools. The program received \$10.0 million in each year of the 2000-02 biennium.

III. Technology Initiative Trust Fund

This trust fund was created in the *Postsecondary Education Improvement Act* to fund projects that advance the strategic agenda. During the 1998-00 biennium, technology initiative funds were used to improve statewide and campus technology infrastructures, and to establish the Kentucky Virtual University and the Kentucky Virtual Library (through KYVU/VL Technology Pool and KYVU/VL support accounts).

In 2000-02, the trust fund included an Equipment Replacement Program, a Network Infrastructure Program, a Public Communications Campaign account, and a Faculty Development Program.

A. KYVU/VL Technology Pool - This account serves as a repository for technology infrastructure funds. The General Assembly appropriated \$5.6 million to this account in 1998-00. These funds provided the hardware and software infrastructure necessary to conduct VU/VL operations. HB 269 included no funding for this account in 2002-04.

B. KYVU/VL Support - This account serves as a repository for infrastructure support funds. The General Assembly appropriated \$4.1 million to this account in 1998-00. These funds supported the implementation and maintenance of VU/VL hardware and software. HB 269 included no funding for this account in 2002-04.

C. Equipment Replacement - This program provides funds to upgrade and replace research and instructional equipment. The program received \$3.8 million in debt service in 2000-02. HB 269 included no funding for this program in 2002-04.

D. Network Infrastructure - This program supports the network infrastructure necessary to expand the Kentucky Information Highway. The program received \$1.2 million in 2000-02. HB 269 includes \$1.7 million in funding for this program in 2002-04.

E. Public Communications Campaign - This account serves as a repository for communications campaign funds. The campaign promotes adult and postsecondary education programs statewide through electronic and print media. It is designed to encourage increased enrollment in adult and postsecondary education programs. The campaign received \$1.5 million in 2000-02. HB 269 included no funding for this account in 2002-04.

F. Faculty Development - This program supports faculty development programs (e.g., campus teaching resource centers, technology training, etc.) at Kentucky's public universities. The program received \$1.0 million in 2000-02. In HB 269, the General Assembly appropriated \$150,000 for this program in 2002-04.

IV. Physical Facilities Trust Fund

This trust fund was created in the *Postsecondary Education Improvement Act* to provide funding for capital projects. It is the repository of the debt service to complete capital projects of a statewide nature (i.e., capital project pools and postsecondary education centers). The General Assembly appropriated \$31.6 million in debt service to this trust fund in 1998-00 to fund postsecondary education centers and capital renewal and deferred maintenance projects. The 2000-02 appropriation contained \$20.9 million in debt service, providing funds to complete capital renewal and maintenance, renovation, and replacement projects. HB 269 included no funding for this trust fund in 2002-04.

V. Postsecondary Education Workforce Development Trust Fund

This trust fund was created in the *Postsecondary Education Improvement Act* to enable the Kentucky Community and Technical College System to provide specific workforce training for Kentucky businesses and industries. It serves as a repository for Workforce Development and Training, Enrollment Growth and Retention Program (the community and technical college portion), and KCTCS Administrative Systems funding.

A. Workforce Development and Training - This program provides business and industry with education, training, and support to create better jobs and a workforce to fill them. It is designed to help the KCTCS improve and expand workforce skills in cooperation with business and industry. The program received \$6.0 million in each year of the 1998-00 biennium, and another \$6.0 million in recurring funds for 2000-02. HB 269 included no funding for this program in 2002-04.

B. Enrollment Growth and Retention - This program provides funding that campus officials can use to hire additional faculty or enhance student services and retention programs. It is designed to help Kentucky meet or exceed national averages of college participation and educational attainment by 2020. The community and technical college portion of this program received \$3.5 million in each year of the 2000-02 biennium. HB 269 included no funding for this program in 2002-04.

C. KCTCS Administrative Systems - This account serves as a repository for KCTCS Administrative System funds, which support implementation of an administrative software system that serves 50 campuses statewide. It received \$4.0 million in 2000-02. HB 269 included no funding for this account in 2002-04.

VI. Student Financial Aid and Advancement Trust Fund

The Student Financial Aid and Advancement Trust Fund includes funding for the Kentucky Excellence in Education Scholarship (KEES) program. The KEES program was established by the 1998 General Assembly to ensure access to public and private universities and colleges in Kentucky. The program provides merit scholarships to Kentucky citizens based on their annual high school grade point averages and ACT scores. The program received \$25.0 million in each year of the 1998-00 biennium, and \$37.5 million in recurring funds for 2000-02. HB 269 appropriated \$63.0 million to the program in each year of the 2002-04 biennium.

Two Additional Funding Programs

In addition to the original six trust funds established in House Bill 1, subsequent legislation and budget bills resulted in the creation of the Adult Education and Literacy Funding Program and the Science and Technology Funding Program.

VII. Adult Education and Literacy Funding Program

The Adult Education and Literacy Funding Program supports the statewide effort to improve and expand adult education in Kentucky as required by the *Adult Education Act of 2000*. The program is coordinated with state and federal funds available to the Workforce Development Cabinet's Department of Adult Education and Literacy. The program received \$11.7 million in each year of the 2000-02 biennium, and \$11.0 million in recurring funds for 2002-04.

VIII. Science and Technology Funding Program

The Science and Technology Funding Program includes four initiatives: the Kentucky Science and Technology Strategy (containing four initiatives designed to fund Kentucky's new economy efforts); the Knowledge-Based Economy Academic Programs; the Kentucky Experimental Program to Stimulate Competitive Research (EPSCoR); and the Kentucky Science and Engineering Foundation.

A. Kentucky Science & Technology Strategy - This program supports small business R&D and commercialization of university research through voucher and seed capital initiatives. The program received \$5.5 million in 2000-02 and \$4.3 million in 2002-04.

B. Knowledge-Based Economy Academic Programs - This program encourages a collaborative approach for educating greater numbers of engineers and information technology specialists. HB 269 included no funding for this program in 2002-04.

C. Kentucky EPSCoR and Kentucky Science & Engineering Foundation - The EPSCoR program encourages federal investment in public university research activities through a state-matching program. The Kentucky Science and Engineering Foundation leverages state funds to increase federal and private sector funding for R&D in Kentucky. These programs received \$4.5 million in 2002-04.

Two Trust Funds Recommended But Not Enacted

IX. Enrollment Growth and Retention Trust Fund

The council recommended creating a new Enrollment Growth and Retention Trust Fund for the 2002-04 biennium. In 2000-02, the Enrollment Growth and Retention Program was funded via three trust funds: (a) the Research Challenge Trust Fund (the research university portion); (b) the Regional University Excellence Trust Fund (the comprehensive university portion); and (c) the Postsecondary Education Workforce Development Trust Fund (the KCTCS portion). Like the original program, the primary purpose of the new trust fund is to help Kentucky reach or exceed national averages of college participation and educational attainment by 2020 by providing financial incentives for the institutions to expand their enrollments. HB 269 did not establish a separate Enrollment Growth and Retention Trust Fund, nor did it include funds for this program in the existing Research Challenge, Regional University Excellence, or Postsecondary Workforce Development trust funds.

X. Teacher Quality Trust Fund

The council recommended creating the Teacher Quality Trust Fund for the 2002-04 biennium. The primary purpose of the trust fund is to support model teacher education programs. HB 269 did not establish a new Teacher Quality Trust Fund, nor did it include funding for this trust fund in the 2002-04 appropriation; however, it did provide funding for teacher education model program initiatives (\$2.0 million in FY 2002-03) through the Education Professional Standards Board.

Special Initiatives Funding Requests

2000-02 Special Funding Requests

Request Submission

- The council staff received 49 special funding requests for the 2000-02 biennium, totaling \$87.0 million in 2000-01 and \$64.3 million in 2001-02.

Funding Recommendation

- The council recommended a total of five requests for funding:

	<u>2000-01</u>	<u>2001-02</u>
KCTCS, Central Office Building	\$800,000	\$800,000
NKU, Metro. Ed. Training Services Facility	700,000	700,000
UofL, Metropolitan College	2,048,000	2,703,000
UofL, Glasgow Family Medicine Program	449,400	505,800
WKU, Kentucky Academy of Math & Science	--	500,000
	<u>\$3,997,400</u>	<u>\$5,208,800</u>

2000-02 Appropriation

- Two requests totaling \$1.9 million were funded by the legislature:

	<u>2000-01</u>	<u>2001-02</u>
NKU, Metro. Ed. Training Services Facility	\$700,000	\$700,000
WKU, Kentucky Academy of Math & Science	--	500,000
	<u>\$700,000</u>	<u>\$1,200,000</u>

2002-04 Special Initiatives Funding Requests

Guideline Development

- At the February 2001 meeting, the council endorsed the *Points of Consensus* concerning the 2002-04 funding methodology. That document stipulated that institutions be given an opportunity to request state General Funds for special and meritorious initiatives for the 2002-04 biennium, and that the criteria for the council's evaluation of those requests be established early in the process.
- At the May 2001 meeting, the council approved the 2002-04 Special Funding Request Guidelines and Evaluation Criteria (see attached).

- The guidelines specified that: (a) institutions should submit no more than two special funding requests for the 2002-04 biennium; (b) requests should not include personnel or operating cost increases normally funded in base budgets; and (c) capital construction projects over \$400K and equipment purchases over \$100K should be included in an institution's capital request.
- The requests were evaluated based on the following criteria: (a) the unique nature and strategic opportunity represented by a request; (b) the potential for enhancing collaboration; (c) the impracticality of paying for the request out of base funding or trust funds; (d) the potential for furthering the Action Agenda, achieving Kentucky's 2020 goals, and advancing the five questions measuring process.

Request Submission

- The council staff received 23 special funding requests for the 2002-04 biennium (through September 1, 2001) totaling \$26.9 million in 2002-03 and \$26.0 million in 2003-04.

Evaluation Process

- In September 2001, four council staff members reviewed and completed evaluation forms for each request. The content of the forms were aggregated and used to generate request rankings. This information was forwarded to the council president, who made the final decision regarding the requests that were included in the staff's funding recommendation.
- At the October 2001 meeting, the university presidents were given an opportunity to inform the council about their special funding requests and capital priorities for 2002-04. Summary descriptive and financial information for each request were distributed at the meeting.

Funding Recommendation

- At the November 2001 meeting, council staff recommended three requests for funding:

	<u>2002-03</u>	<u>2003-04</u>
KSU Land Grant Match (non-recurring)	\$487,800	\$502,400
EKU Interpreter Training Program	109,600	123,800
UofL Trover Clinic	716,100	716,100
	<u>\$1,313,500</u>	<u>\$1,342,300</u>

2002-04 Appropriation

- One request was funded by the legislature:

	<u>2002-03</u>	<u>2003-04</u>
KSU Land Grant Match (non-recurring)	\$487,800	\$502,400
	<u>\$487,800</u>	<u>\$502,400</u>

2002-04 SPECIAL INITIATIVES FUNDING REQUESTS GUIDELINES AND EVALUATION CRITERIA

Introduction

Special funding requests should represent unique opportunities to advance postsecondary education beyond the means allowed by other state funding mechanisms. Generally, the council will not consider institutional requests that can be funded through base budgets or trust funds. Special funding requests should further the Action Agenda, help achieve Kentucky's 2020 goals, and relate to the five questions that are used to measure progress. Special funding is not guaranteed. Institutions should bear in mind that economic conditions could sharply limit available dollars.

Guidelines

- Institutions should submit no more than two special funding requests for the 2002-04 biennium.
- Special funding requests should not include personnel or operating-cost increases normally funded in base budgets such as utilities and health insurance, even if increases are unusually high.
- Funding sought for capital construction projects that cost \$400,000 or more or major equipment purchases of \$100,000 or more should be included in an institution's capital request.

Evaluation Criteria

- Unique nature of the request and the strategic opportunity represented.
- Collaboration, where feasible.
- Impracticality of paying for the request out of base funding or trust funds.
- Relationship of the proposal to furthering the Action Agenda, achieving Kentucky's 2020 goals, and the five questions measuring progress.

Process

- Special funding requests must be submitted on or before September 1. Each request should include the following:
 - Detailed description of the proposal, including how the funds will be used.
 - Description of how the proposal would further the Action Agenda, help achieve Kentucky's 2020 goals, and relation to the five questions measuring progress.
 - A summary of financial information.

Current Issues Related to Section C

1. Evaluation of current incentive trust funds to assess their effectiveness in advancing education reform
2. Determination of funding priorities for 2004-06, including recommendations for existing trust funds as well as the addition of new trust funds and to address particular areas of reform not currently being addressed by base funding and/or current incentive trust funds.
3. Review of the process by which special initiatives funding requests are evaluated and the development of priorities and guidelines.

Section D

Capital Budgeting

2002-04 CAPITAL PROJECTS RECOMMENDATION

Background

The first step in the 2002-04 capital projects process was the submission of a six-year capital plan by the council and the institutions to the Capital Planning Advisory Board (CPAB) (April 15, 2001). Some items to note in this process included:

- Institutions had the option of changing plans submitted to CPAB through October 2001.
- This process allowed the Kentucky institutions to identify, to the extent possible, all capital projects planned or envisioned to be completed over the next three biennia as well as identify the specific projects to be completed from state funds in the 2002-04 biennium.
- Projects were required to be listed in a priority order by institutions and in priority categories by the council.
- The project identification process only required that projects that cost \$400,000 or more be listed in the plans.
- Postsecondary education institutions were not required to list capital equipment projects beyond the first two years of the plan.
- The first two years of the six-year plan is generally considered by the council and the CPAB to be the capital request for the upcoming biennial budget.
- The CPAB held a budget hearing in July 2001 and the council president and institutional presidents were asked to discuss the plans with the request that the council focus on statewide issues.

Project Analysis and Development of Recommendation

Statewide Postsecondary Education Priorities:

1. Capital renewal, maintenance, and life safety projects - Defined as projects required to keep facilities in basic operating condition to allow institutions to continue to provide instructional and support services.
2. Major renovations, replacements, and infrastructure projects - Defined as projects that completely remodel or refurbish existing instructional or support space or projects that provide essential services, electrical, sewer, water, steam and chilled water, etc., to existing facilities or recently constructed facilities.
3. Research space - Defined as space required in support of the reform directive to increase the competitive status of the research institutions and to allow them to recruit researchers of national prominence. (University of Kentucky and University of Louisville)

4. New Construction - Defined as projects required in support of the instruction and education support programs on the college and university campuses. These projects may be new classroom facilities, student centers, libraries, office complexes, etc.
5. Agency funded projects - Defined as projects to be funded from institutional sources, including private money, that are critical to the ongoing operations of the individual institutions.

Capital Project Review Process

State General Fund

- **Project evaluation by professional consultant** - A condition and fit for use review using the services of a professional architect who, along with council staff, visits each campus to evaluate capital renewal and maintenance, major renovation or replacement, infrastructure, and research projects. Based on the evaluation a report is issued that describes the general conditions presented by these projects including a statewide priority for addressing the issues.
- **Space model analysis** - A mathematical model comparing the amount of existing and authorized new education and general space to the benchmark established in the space planning guidelines is used to determine the comparative need for new instructional or support space. If the model generates a deficit for an institution, a capital project may be recommended unless other space can be renovated or remodeled to accommodate the need.
- **Statewide pools** - Generally there are two pools requested by the council: (1) capital renewal and maintenance pool, and (2) equipment replacement pool. These pools represent the ongoing need to modernize and upgrade the learning environment of students and the work environment of the faculty and staff. The council usually establishes the level of funding to be sought for these purposes in September/October during its budget discussions with presidents.

Restricted Agency Fund

- **Agency bond pool** - Renovation, infrastructure, and new construction projects identified by institutions to be completed using money generated from bonded debt service by the revenue generated by the individual project or its associated services.
- **Restricted funds projects** - A listing of capital renewal, life safety, renovation, infrastructure, and new construction projects that are to be completed by an institution using its own money, federal funds, or private funds.

- **2002-04 Recommendation**

1. Kentucky State University -- Hathaway Hall Classroom Building renovation, Phase II, \$5.9 million, capital project to be funded with state General Fund support.
2. Capital renewal and maintenance pool -- \$30 million.
3. Equipment replacement program pool -- \$20 million.
4. Endorsed projects totaling -- \$340.6 million for the Governor and the General Assembly to consider funding.
5. Agency bonds -- \$100 million.
6. Agency funds program -- \$379 million.

Capital Budget Recommendation

Background

Traditionally state funds (bonds or cash) are used to support academic and support facilities. Institutional funds (restricted fees, federal funds, private funds) are used to support auxiliary enterprise facilities, such as student housing and parking facilities. Choices must be made by the council concerning which projects to recommend for funding since typically institutions identify significantly more needs than there is capacity within the State General Funds to address.

Capital renewal and equipment replacement - The pools are identified and their proceeds, by agreement with institutions, are distributed based on each institution's share of education and general space or their share of budgeted or actual expenditures for a specific program area. For example, the capital renewal pool is distributed based on each institution's share of education and general space as reported in the council's comprehensive database.

Major renovations, replacements, and infrastructure - The magnitude of projects requested by institutions in each biennium typically range from \$200-300 million for renovations, replacements, or infrastructure projects. It is more cost effective in some cases to replace rather than renovate a facility.

Research space - This category of requests and recommendations relate directly to the reform act (HB 1).

Current Issues Related to Section D

1. Evaluation of state's responsibility compared to institutional responsibility for capital renewal and equipment replacement.
2. Determination of appropriate magnitude of capital requests when budget forecasts do not reflect the amount of capital needs at the institutions.
3. Determination of responsibility of the state for deferred maintenance/capital renewal in cases where projects were not recommended or authorized.
4. Determination of priorities for capital when expected funds are limited.
5. Evaluation of research space productivity.

Section E

Timeline for CPE Discussion and Action

Overview of CPE meetings --- Discussion and Action Items

2004-06 Operating and Capital Budget Recommendations

MAY	JULY	SEPTEMBER	NOVEMBER
DISCUSSION: 1. 2004-06 operating and capital budget development process	DISCUSSION: 1. <i>Points of Consensus</i> Revisions (including funding distribution policy) 2. Incentive trust funds: priorities 3. Special initiative request: guidelines and evaluation criteria 4. 2004-06 budget recommendation (benchmark changes)	DISCUSSION: 1. Operating budget request: benchmark funding model results 2. Capital budget request 3. Institutional report on tuition rates & revenues 4. Incentive trust funds: amounts & distribution guidelines 5. Submitted special initiatives requests	DISCUSSION:
ACTION: 1. Tuition guidelines; percentages and deductions 2. CPE 2004-2010 six year capital plan	ACTION: 1. Space planning guidelines revisions 2. Capital budget priorities	ACTION: 1. Tuition percentages deduction (actual calculations) 2. Central tendency calculation 3. <i>Points of Consensus</i> revisions (including funding distribution policy)	ACTION: 1. Operating budget recommendation 2. Capital budget recommendation

* Possible budget hearings in October

* SCOPE meetings, June 2 and September 8

